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WAR FOOD ADMINISTRATION
Extension Service
Washington 25, D. C.

WHAT ABOUT THAT G. I. AGRICULTURAL LOAN GUARANTY?

Some questions and answers regarding major points of interest. 1/

(This document treats only those items which will be of most frequent interest. More detailed information may be obtained from the Veterans Administration, local lending agencies, and those agencies of the Department of Agriculture assisting with the administration of the farm loan portions of the G. I. Act.)

1. Ques. Who is eligible for an agricultural loan guaranty?

Ans. Any veteran (male or female) of World War II who has served in the military or naval forces on or after September 16, 1940, and prior to the termination of this war who

(a) has been separated from the services under conditions other than dishonorable.

(1) after active service of 90 days or more, or
(2) because of injury or disability incurred in service in line of duty, irrespective of length of service; and

(b) applies for the benefit of this Title within 2 years after separation from the military or naval forces, or within 2 years after the officially declared termination of the war, whichever is later, but, in no event, later than 5 years after such termination of the war.

2. Ques. For what purposes may an agricultural loan guaranty be obtained?

Ans. (a) For the purpose of paying for land, buildings, livestock, equipment, machinery, or implements purchased or to be purchased by the veteran, or for repairing, altering, or improving any building or equipment, to be used in bona fide farming operations conducted by the veteran.

(b) Section 501 of the Act provides for loan guarantees for the purchase or construction of homes. Under appropriate circumstances a guaranty pursuant to this section may be obtained if the loan is for the purpose of paying delinquent indebtedness, taxes, or special assessments on residential property owned by the veteran and used by him as his home. This section is applicable to a farm if it is the veteran's home.

3. Ques. What are "farming operations" for the purpose of this Act?

Ans. Farming operations are those which involve actual production and marketing of crops, livestock, livestock products, or other agricultural commodities, and which constitute the applicant's major occupation.

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4. Ques. What is meant by "major occupation?"

Ans. In general this means that the veteran will be devoting the major portion of his time and attention to the operation of the particular farm in connection with which a loan guaranty is extended.

5. Ques. What is meant by "conducted by the veteran?"

Ans. This means personally directed and operated by the veteran on the site, with or without hired labor; not solely operated by a tenant or an employee who does not receive supervision and direction by the veteran.

6. Ques. What are the purchase price limitations in the extension of an agricultural loan guaranty?

Ans. The purchase price must not exceed the "reasonable normal value" of the property to be purchased as determined by proper appraisal. The purchase price must be within the veteran's ability to pay and succeed in his operations. The local certifying committee will have to certify to the Veterans Administration its opinion as to whether or not the proposed purchase price of the property to be acquired exceeds the reasonable normal value of the property.

7. Ques. What does "reasonable normal value" mean?

Ans. Reasonable normal value for the purposes of the Act is that which can be justified as a fair and reasonable price to be paid for the real or personal property for the purposes for which it is being acquired, assuming a reasonable business risk, but without undue speculative or other hazard as to the future of such value. There must also be taken into consideration the normal earning capacity value of the farm or other property, assuming average managerial ability, and yields and prices for farm products that may reasonably be anticipated during the period of the loan. There will not be unreasonably rigid adherence to long-time average prices or reliance upon a continuation of abnormal prices.

8. Ques. Must a veteran applicant have farming experience or knowledge of farming in order to obtain a loan guaranty?

Ans. The minimum prerequisite in determining that the ability and experience of a veteran is such that there is reasonable likelihood that he be able to perform the work which will be required of him in the kind of farming operations in which he expects to engage; that his character, industry, training and experience are such that he is likely to perform successfully the various operations and to discharge the managerial responsibilities that will be required of him.

In addition to any instruction he may have received in training centers, schools, colleges, short courses, correspondence or self-study

courses, a veteran who expects to make his living wholly or primarily from farming and who has had little or no actual farming experience should (except in very special or unusual cases) acquire actual experience on a farm in the various seasonal operations related to the kind of farming in which he expects to engage before a certifying committee should certify that there is reasonable likelihood that his farming operations will be successful. The amount of actual experience required should bear an appropriate relationship to the magnitude of the investment, the character of the operation, the ability of the applicant and the amount of practical guidance that may be available to him after he starts farming. Placement training on a farm carried on under the auspices of an educational institution approved by the Veterans Administration should be accepted as actual experience on a farm.

9. Ques. What financial resources must a veteran have in order to obtain a loan guaranty?

Ans. It must appear that the veteran's financial situation will be such that he likely will be able to carry on the farming enterprise successfully.

10. Ques. Will the "GI" guaranty enable a veteran without capital of his own to borrow all the money he needs to buy, equip, and operate a farm?

Ans. No. There is no provision for operating loans to finance the purchase of feed, seed, fertilizer, family subsistence, etc. The veteran who does not have funds of his own for these purposes must be able to borrow them without the benefit of a guaranty.

Often more capital will be required to buy and equip a farm, to say nothing of the capital required for feed, seed, fertilizer, family living, etc., than it will be possible to borrow through a G. I. Guaranteed Loan.

11. Ques. Is a veteran beginning farming eligible for a readjustment allowance under Title V of the Servicemens' Readjustment Act of 1944?

Ans. He may be; he should consult the nearest public Employment Service Office regarding the matter.

12. Ques. Are there any size or other limitations on a farming operation in relation to which a loan guaranty may be extended?

Ans. A farming operation must be of sufficient size and productivity to enable an operator of average ability, operating under normal circumstances as to yields and prices, to derive sufficient subsistence and income from it to meet necessary living and operating expenses and debt obligations. The area of the farm unit and its composition (i.e., crop acres, pasture, woodland, etc.) must be carefully related to and reconciled with the type of operations which would be undertaken by a typical operator. Improvements and farm facilities must be appropriate, or feasibly adjustable, to operations to be undertaken.

13. Ques. What other relevant facts regarding the use of funds obtained through a loan guaranty are prerequisite to extending a loan guaranty?

Ans. It must be shown that

(a) the proceeds of such loan will be used in payment for real or personal property purchased or to be purchased by the veteran, or for repairing, altering or improving any buildings or equipment, to be used in bona fide farming operations conducted by the veteran, and

(b) such property will be useful in and reasonably necessary for efficiently conducting such operations.

14. Ques. What are the upper limits of loan guarantees under this Act?

Ans. In no event will the aggregate of any or all guarantees in respect to one veteran exceed \$2,000 or at any time exceed 50 per centum of a loan or loans in relation to which guarantees are extended whether such loans are for the purchase of a farm or farm equipment, purchase or construction of a home, or the purchase of a business property.

15. Ques. What is the maximum interest rate on a loan in connection with which a loan guaranty may be extended?

Ans. 4 per centum per annum. (The government pays the interest on the guaranteed part of the loan for the first year).

16. Ques. What is the maximum period within which a guaranteed loan must be paid?

Ans. 20 years. The time for repayment of loans secured by livestock or any other personal property must be based upon practical analyses of the proposed farming operations, taking into account necessary farm operating costs, and ultimate maturity must be well within the useful life of the security.

17. Ques. Are "prepayment" privileges on the part of the debtor permitted?

Ans. When the debt is to be amortized the note or other evidence thereof, or the mortgage securing same, shall contain appropriate provisions granting any person liable for such debt, the right to pay at any time the entire unpaid balance or any part thereof.

18. Ques. Are annual principal payments on guaranteed real estate loans required?

Ans. Yes, except if the borrower and lender agree payments on the principal of amortized real estate loans may be waived during a period not extending beyond the first three years.

19. Ques. What security is required on loans to be guaranteed?

Ans. Each loan guaranteed in whole or in part by the Administrator shall be secured by a "mortgage" except that when the principal amount of a loan to be guaranteed does not exceed \$500 and the lender does not require a mortgage, the Administrator may nevertheless guarantee such loan provided it complies otherwise with the Act and the regulations.

20. ques. What loan charges may be made against the veteran applicant seeking a loan guaranty?

Ans. Such fees, in accordance with local custom, as are usually made against a borrower, such as fees for appraisals, credit reports, surveys, abstract, or title search, and the like. In the case of a loan to be guaranteed for a veteran these fees must be limited to amounts actually paid or incurred by the lender. In case of a purchase similar amounts actually paid or incurred by the seller ("mortgagee") may be charged to the veteran purchaser if he so agrees.

21. Ques. Are there any costs which will have to be paid before an application for a loan guaranty is approved?

Ans. In the case of a loan guaranty application involving a loan where an appraisal by a designated qualified appraiser is required the lender must forward the necessary fee to cover appraisal costs along with the request for the appraisal. In such instances the lender may require the applicant to provide the funds necessary to cover this cost.

22. Ques. What is a veteran borrower's liability in connection with "guaranteed" loans?

Ans. The veteran is fully liable the same as if a similar loan was obtained without the benefit of a loan guarantee under this Act. In case the United States is required to disburse any sums on account of a claim pursuant to a guaranty it will collect from the veteran, or his estate, or in any other lawful manner, any such sums disbursed.

23. Ques. What steps must a veteran take to obtain a loan guaranty?

Ans. Three major steps must be taken to initiate and obtain a loan guaranty. They are:

(a) Locate or determine property to be acquired, or, in case of improvements, alterations, or repairs, determine the specific nature and extent of improvements, alterations, or repairs to be made.

(b) Locate a lender willing to enter into a loan agreement.

(c) Jointly with the proposed lender file with the nearest office of the Veterans Administration

- (1) a request for a certificate of eligibility and
- (2) an application for a loan guaranty.

24. Ques. Is a veteran required to consult with the local county agricultural advisory committees established through the Extension Service before filing an application for an agricultural loan guaranty?

Ans. No. These committees have been established as a ready and voluntary source of counsel for veterans. However, most veterans planning to engage in farming will find it to their advantage to consult with these committees regarding local agriculture before entering into any definite commitments to borrow money for agricultural purposes. These committees can be reached through the offices of the local county agricultural agents.

25. Ques. What are the procedures for handling loan guaranty applications?

Ans. (a) The Veterans Administration will provide the proposed lender a certification of the veterans eligibility and will forward instructions to the proposed lender regarding procedures to obtain necessary appraisals and credit reports, if such are required. (In the event the application is for a loan guaranty on real-estate the lender will be advised to forward a request for the necessary appraisal to a designated appraiser. The Farm Credit Administration appraisers will make real estate appraisals when requested by the Veterans Administration.)

(b) When the proposed lender has obtained such appraisal and credit reports as are required he will forward all the pertinent documents to the local county "veterans agricultural loan committee," referred to as the certifying committee, for review, evaluation and recommendation to the Veterans Administration.

(c) The certifying committee, after proper determinations on their part, will certify its opinion to the Veterans Administration regarding:

- (1) the value of the property involved,
- (2) use to which proceeds of the loan will be put,
- (3) usefulness of the property to be acquired in relation to the proposed operations,
- (4) ability and experience of the veteran as related to probability of success in farming,
- (5) adequacy of the farm involved in relation to probability of operations contemplated thereon being successful, and other pertinent matters.

This committee will also recommend to the Veterans Administration whether the proposed guaranty should or should not be approved. Final action on the application will be taken by the Veterans Administration.

(d) If the Veterans Administration approves the application for guaranty it will notify the proposed lender and provide him with instructions for closing the loan. If the loan application is denied the lender and the applicant will be so advised by the Veterans Administration with the reasons for the denial stipulated.

(e) If an application for a loan guaranty is denied upon first application the veteran and the proposed lender, or either, may appeal to the Administrator of the Veterans Administration for a review of the application.

26. Ques. What is the "certifying committee" and where is it located?

Ans. The certifying committee is a local committee of 4 members appointed by the Secretary of Agriculture. Three members of this committee will be the members of the Bankhead-Jones Farm Tenant Committee operating under the direction of the Farm Security Administration. The fourth member will be a veteran and, if possible, a businessman. The headquarters office of this committee will be the office of the local county Farm Security Administration Supervisor.

27. Ques. Where can application blanks for loan guarantees be obtained?

Ans. As soon as available from the printer these blanks will be made available to all local lending agencies. They will also be available from the local county FSA supervisor's office and at all offices of the Veterans Administration.

